HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Thunder Bay CMA

Canada Mortgage and Housing Corporation

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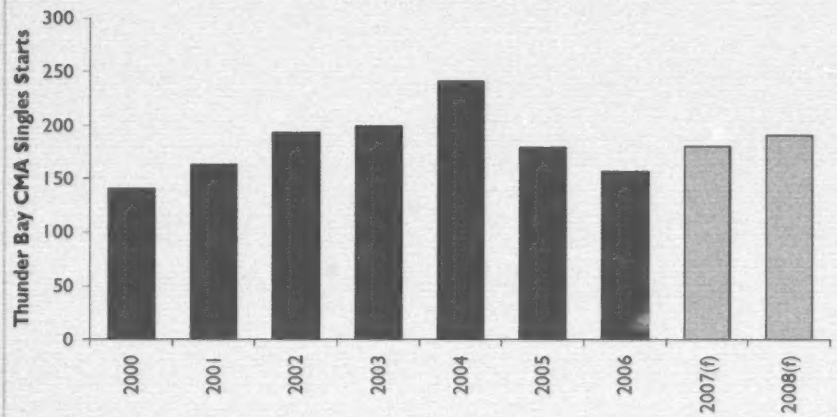
New Home Market

Thunder Bay's Single-Detached Starts Dipping

Single-detached home starts in Thunder Bay are expected to rise 14.6 per cent in 2007 to 180 units and a further 5.6 per cent in 2008 to 190 units. New housing construction activity recovered from a weak 2006 during the first half of 2007 but slowed significantly since then. With the Thunder Bay economy in a transitional phase, employment gains have not matched employment losses over the past three years and this appears to be preventing housing starts from moving ahead strongly. There has been volatility in multiple unit starts in Thunder Bay in recent years. Multi-family starts should rise in 2007 and 2008 with 100 units anticipated for the next 14 months.

Figure 1

Thunder Bay Single Starts Up Slightly



Source: CMHC forecast

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The tightness of the Thunder Bay resale market, especially in the higher-end move-up price ranges, is a key reason for the upswing in new construction. The aging population in Thunder Bay may be part of the reason that fewer listings are coming onto the market. While repeat and/or move-up buying is associated with people between 45 and 64 years old, research also shows that people in this age bracket tend to move less frequently than younger people. This is particularly true of people in their sixties. With a relatively large percentage of Thunder Bay's population being in these age groups, it is no surprise we are seeing fewer listings. This phenomenon has also been witnessed in other Northern Ontario markets in recent years.

Completions of new homes priced between $250,000 and $500,000 have risen strongly. The share of these higher-priced as a proportion of total new home absorptions is increasing significantly.

Resale Market

Thunder Bay Demand Far Outstrips Supply

Thunder Bay existing home sales are forecast to rise 7.2 per cent in 2007 and another one per cent in 2008. The surprisingly strong sales performance, coupled with scarce supply, is the main story thus far in Thunder Bay's resale market.

First-time homebuyers have been part of the reason for the strong sales activity. Sales are up in all price ranges but the strongest increase has been for homes under $60,000, Sales of these homes have risen 30.5 per cent from last year. Some of these sales occurred in rural areas where prices are generally low, but the data still indicates that demand for starter homes is strong in Thunder Bay also. Undoubtedly, growth in lower paying service sector jobs has contributed to the strength in the starter home market along with more lending tools to attract buyers to the market such as longer amortization periods. Sales at the other end of the scale, namely those over $250,000, are also up strongly, 29.5 per cent, comparing the first three quarters of 2007 and 2006.

The aging baby boomer is clearly the driving force behind the escalation in sales in this price range. These buyers tend to be moving up in the market, many in the upper reaches of the resale market and if the supply is not there to satisfy demand, interest spills over into the new home market.

New listings will decline about five per cent in 2007 and increase one per cent in 2008. New listings are well below 2006 levels, off nearly 12 per cent thus far. The sales to new listings ratio is up strongly in Thunder Bay, usually a precursor to price escalation. The lower number of listings coupled with relatively strong demand, is putting some pressure on prices.

Prices, which have risen 2.7 per cent in the first three quarters of 2007, are forecast to conclude the year up 3.0 per cent in 2007 and to rise another 2.8 per cent in 2008. In the $120,000 to $250,000 price range, listings are off 16 per cent while sales are up nine per cent, leading to strong price growth in this move-up segment of the market.

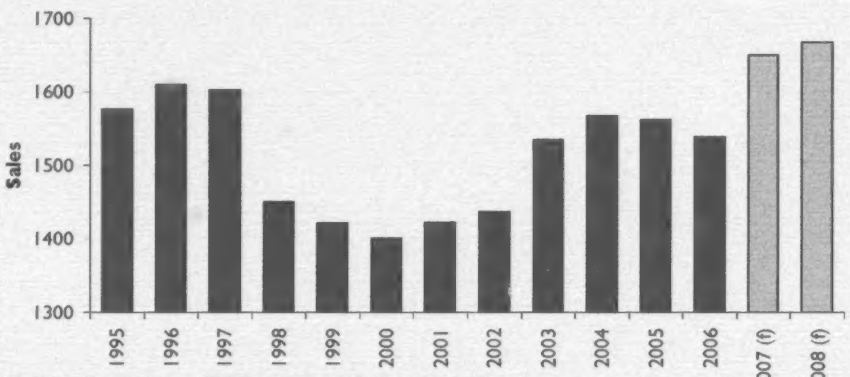
Employment

Thunder Bay Labour Market in Transition

Thunder Bay is experiencing weakness in the forest products industry.

Figure 2

Resales Will Climb in Thunder Bay This Year and Next



(f) CMHC Forecast; Note: TBREB sales are for Districts 1 & 2 only.
Source: Thunder Bay REB, CMHC

Figure 3

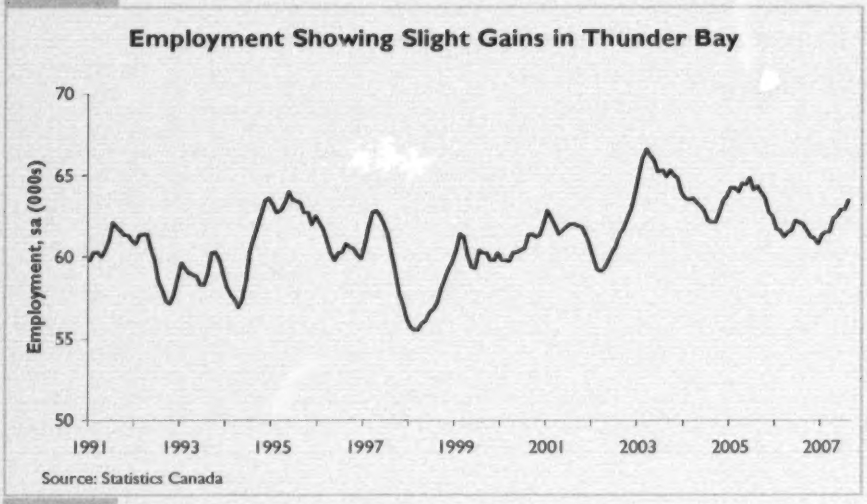


Figure 4

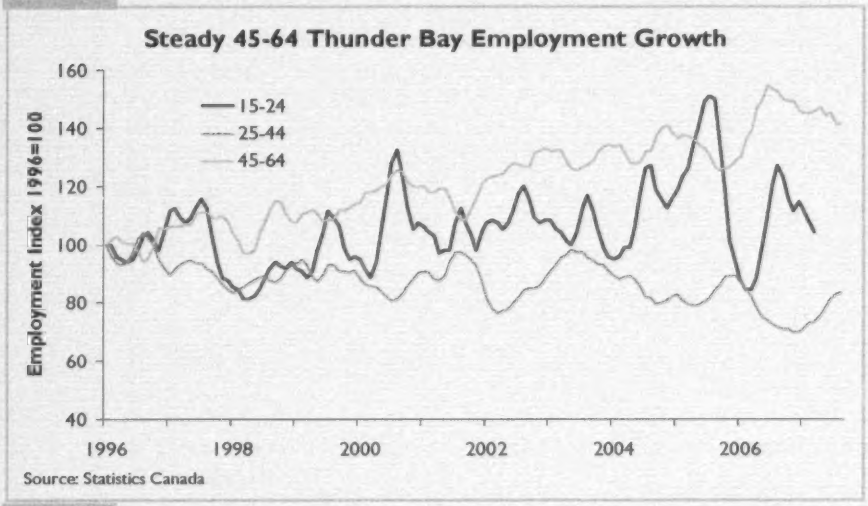
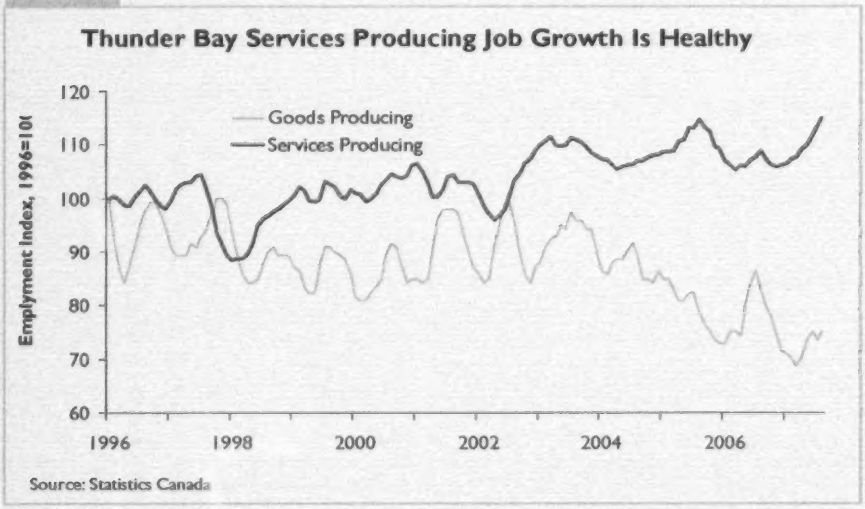


Figure 5



High energy costs, a US housing sector in decline and shortages of wood fibre are hampering this key component of Thunder Bay's economy. The latest appreciation of the Canadian dollar is adding to the challenges faced by the industry. Housing demand, especially on the new construction side, is being negatively impacted by the weakness in this traditionally important sector of the local economy. The potential start-up of the idled Cascades Fine Paper mill is one bright spot within the local industry.

Employment is expected to rise by a mere 0.8 per cent in 2007 with another modest increase in 2008. Employment has been recovering since late 2006 in Thunder Bay. Job gains have been primarily in the lower paying services side of the economy while the goods-producing sector has been slow to recover. Labour force increases have outpaced employment gains this year leading to a slightly higher unemployment rate.

Bombardier's TTC contract, expanding service sector employment and the emerging knowledge economy bode well for Thunder Bay's future. However, it will take some time for knowledge sector jobs to replace those lost in the forest products industry.

Migration

Out-Migration From Thunder Bay Persists

Out-migration and net negative natural increase persist in Thunder Bay. The latest data for the CMA suggests both demographic indicators

have been negative for at least the last two years. Despite this recent trend, a slight population increase for Northwestern Ontario's largest market was registered between 2001 and 2006 according to the 2006 Census. Net in-flows from the districts around Thunder Bay provided the chief contribution to this increase. Net migration is anticipated to stay negative in 2006-2007, and also in 2007-2008 although out-migration will moderate as a gradually improving economy stimulates movement into Thunder Bay.

Mortgage Interest Rates

Mortgage rates are expected to remain flat through the end of 2007. While still low by historical norms, mortgage rates are expected to rise gradually by 25-50 basis points in 2008. The one year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.75-7.75 per cent range in 2008.

Figure 6

Source: Statistics Canada; CMHC forecast

Forecast Summary Thunder Bay CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	1,567	1,562	1,539	1,650	7.2	1,667	1.0
MLS® New Listings	2,616	2,788	3,015	2,714	-10.0	2,849	5.0
MLS® Average Price ($)	115,262	125,303	127,464	131,288	3.0	135,000	2.8
New Home Market							
Starts:							
Single-Detached	241	179	157	180	14.6	190	5.6
Multiples	46	48	8	40	**	40	0.0
Semi-Detached	10	4	4	10	150.0	10	0.0
Row/Townhouse	5	0	4	0	n/a	0	n/a
Apartments	31	44	0	40	n/a	40	0.0
Starts - Total	287	227	165	230	39.4	240	4.3
Average Price ($):							
Single-Detached	213,231	222,587	226,633		n/a		n/a
Median Price ($):							
Single-Detached	210,000	215,000	215,000		n/a		n/a
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.9	1.7	1.7	4.0	-	4.5	-
Rental Market							
October Vacancy Rate (%)	5.0	4.6	4.9	5.7	0.8	6.2	0.5
Two-bedroom Average Rent (October) ($)	679	689	696	703	1.0	707	0.6
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	0.56	7.19	0.33
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	0.57	7.41	0.39
Annual Employment Level	63,000	63,800	61,500	62,000	0.81	62,400	0.65
Employment Growth (%)	-3.4	1.3	-3.6	0.7	-4.3	0.1	-0.6
Unemployment rate (%)	8.2	7.1	7.5	7.9	-	7.8	-
Net Migration	47	-428	-747	-250	-67	-100	-60

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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